

State of Rhode Island Revenue Brief

FY 2007 Cash Collections through July 2006

For the month of July in FY 2007, the Monthly Revenue Brief is abridged, particularly in the analysis of Personal Income Tax and Sales Tax components. In July 2006, the State of Rhode Island transitioned into a new paperless purchasing and general ledger system. As a result, revenue reporting was delayed in the first month of the fiscal year and a portion of the departmental revenue posting was delayed until August 2006. In the future, the State of Rhode Island Budget Office will revert to the level of detail provided in former Monthly Revenue Briefs.

Beginning in FY 2004, the State of Rhode Island Budget Office presented a more comprehensive assessment of fiscal year-to-date revenue collections. In particular, the Revenue Brief now contains information on the Other General Revenue Sources. These sources include the Gas Tax Transfer, Other Miscellaneous Revenues, the Lottery Transfer, and the Unclaimed Property remittance.

Users of the report should be cautious when comparing year-to-date growth rates to the revised growth estimate for Other Miscellaneous Revenues and Unclaimed Property as the receipt of these revenues is not continuous. That is, for these two general revenue categories, payments are received at discrete points in time over the course of a fiscal year. Further complicating matters is the fact that the discrete pattern of receipts varies so that payments received do not necessarily occur at the same point in time in each fiscal year.

Total General Revenues

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	4.1 %	-0.4 %	0.3 %

Fiscal Year 2007 total general revenues collected through July 2006 have decreased by 0.4 percent as compared to Fiscal Year 2006 total general revenues collected through July of last year. For the fiscal year-to-date period through July 2006, total general revenues were \$176.3 million as compared to \$176.9 million for the same period last year, a decrease of \$630,408. Due to various causes, which are detailed below, adjustments need to be made to the fiscal year-to-date data for both FY 2006 and FY 2007.

In FY 2006, July year-to-date revenues were overstated by \$1.7 the result of two late postings of cash collections that were credited as FY 2006 revenues but were actually FY 2005 revenues. A late posting occurs when receipts received in one month (e.g., June) are not entered into the state's accounting system until the next month (e.g., July). Sales and use tax receipts were underreported by \$1.2 million due to a misposting of the prepaid sales tax on the retail sale of cigarettes as cigarette floor stock tax revenues in July 2006. An act amending the sales and use tax to require prepayment of the sales tax on retail cigarette sales was passed by the

General Assembly in June 2005. As a result, the cigarette tax revenues are correspondingly higher by \$1.2 million in FY 2006.

Motor vehicle revenues were again understated in fiscal year 2006 by \$2.3 million due to the posting of interstate trucking payments in July 2005 rather than June 2005. The motor fuel tax was unusually high in July 2005 by \$974,102 as a result of the Division of Taxation filing a proof of claim in a bankruptcy proceeding. Another unusually large fee was paid for banking enforcement in July 2005, in the amount of \$761,000, increasing year-to-date FY 2006 fines and penalties.

In FY 2007, July 2006 revenues reported include five additional business days of receipt postings but do not capture nearly 150 postings attributable to July that were not approved electronically for posting prior to the July closing. Upon introduction of the State's new accounting system, the Office of Accounts and Controls deemed it permissible to allow five additional business days for posting month-end transactions. It is not feasible to estimate the value of any additional transactions posted after month-end that were attributable to the new policy nor is it possible to estimate the value of the transactions that were posted late (and will appear in the August revenue report) due to delays resulting from the transition to the new system. Although it is not practicable to estimate these adjustments for FY 2007, it is advisable to keep these issues in mind when consulting the July 2006 and August 2006 revenue reports. In addition, \$3,000 was misposted as taxes on bank deposits but is actually attributable to tax on financial institutions

Accounting for these revenue adjustments yields an adjusted rate of growth for the fiscal year-to-date period through July 2006 of 0.3 percent. It should be noted that the adjusted year-to-date growth rate is not necessarily indicative of the projected annual growth. The FY 2007 enacted growth estimate, is an increase of 4.1 percent in total enacted FY 2007 general revenues over final enacted FY 2006 collections.

Taxes and Departmental Receipts

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.7 %	-0.3 %	0.3 %

The State of Rhode Island Budget Office reports that FY 2007 taxes and departmental receipts collected through July 2006 have decreased by 0.3 percent as compared to FY 2006 collections for the comparable period a year ago. For the fiscal year-to-date period ending July 2006, total taxes and departmental receipts were \$175.9 million as compared to \$176.5 million for the same period last fiscal year, a decrease of \$588,783.

Several adjustments must be made to taxes and departmental receipts in FY 2006. They consist of the late motor vehicle licenses and fees' interstate trucking payments, the late personal income tax receipt, the erroneously posted cigarette taxes, the one-time "proof of claim" receipt for a bankruptcy proceeding in the motor fuel tax, and the unusually large

banking enforcement fine. These adjustments result in a modification of \$(1.2 million) to FY 2006 taxes and departmental receipts.

The adjustments to FY 2006 taxes and departmental receipts yields a FY 2007 adjusted growth rate in taxes and departmental receipts of 0.3 percent.

Other General Revenue Sources

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	13.8 %	-9.1 %	-9.1 %

FY 2007 other general revenue sources collected through the first month of FY 2007 have decreased by 9.1 percent as compared to collections through the first month of Fiscal Year 2006. The FY 2007 enacted growth estimate for other general revenue sources projects an increase of 13.8 percent in other general revenue sources over final enacted FY 2006 collections. For the fiscal year-to-date period ending July 2006, total other general revenue sources were \$413,957 as compared to \$455,582 for the same period last year, a decrease of \$41,625.

Total Taxes

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	2.6 %	2.3 %	2.6 %

Total tax revenues for the fiscal year-to-date period through July 2007 were \$170.4 million, or 2.3 percent more than the \$166.6 million in total taxes collected in FY 2006 through July 2006. The FY 2007 enacted growth estimate for tax collections is 2.6 percent over final enacted FY 2006 tax collections. Listed below are the modifications that must be made to determine the adjusted growth rate for total taxes.

In FY 2006, motor vehicle license and fee revenues were underreported by \$2.3 million as a result of the late payment of FY 2005 interstate trucking fees, personal income taxes were overstated by \$1.7 million, and motor fuel taxes were overstated by \$974,102. These modifications yield an adjusted FY 2007 growth rate of 2.6 percent for total taxes.

Personal Income Taxes

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	5.8 %	-2.6 %	0.1 %

Actual personal income tax collections for FY 2007 through July 2006 decreased, with a 2.6 percent decrease compared to the same period last fiscal year. The FY 2007 fiscal year-to-date growth rate lags the FY 2007 enacted growth of 5.8 percent over final enacted FY 2006 personal income tax collections rate.

Sales and Use Taxes

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	5.2 %	6.5 %	4.8%

Sales and use tax collections in FY 2007 are up \$5.0 million, or 6.5 percent, relative to last fiscal year at this time. As always, the monthly sales tax receipts reported here reflect the prior month's retail sales activity. For both FY 2006 and FY 2007, the state's sales tax rate is 7.0 percent. Adjustments must be made to correct for revenue collected in July 2006 that were posted late as cigarette taxes but were actually new prepaid sales taxes on cigarettes. The misposting of \$1.2 million must be adjusted out of cigarette taxes and into sales taxes, bringing the FY 2007 year-to-date growth rate through July down to 4.8 percent on an adjusted basis for sales and use taxes.

General Business Taxes

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-10.2 %	-0.5 %	-0.5 %

In general, it is not possible at this time to begin to discern patterns in this year's general business tax collections. Most general business taxes are paid in March and June of the fiscal year, with 40.0 percent of total tax liability due in March and 60.0 percent of total tax liability due in June. The exception to this pattern is business corporations taxes and health care provider assessments. Total general business taxes collected in the fiscal year-to-date July 2007 period were \$7.8 million or \$39,426 less than the \$7.8 million collected for the same period in FY 2006. Year-to-date growth in FY 2007 is -0.5 percent. The enacted growth rate is -10.2 percent as determined by the final enacted FY 2006 revenues and newly enacted FY 2007 revenues. FY 2007 year-to-date business corporations taxes are down \$313,153, or 7.5 percent, from last fiscal year at this time. Also down, health care provider assessment taxes through July 2006 decreased by 1.7 percent, or -\$3.5 million, from the same period in FY 2006.

Public utilities gross earnings taxes are up 725.9 percent, or \$326,220. The insurance companies tax is up 10.1 percent year-to-date. Financial institutions tax payments exceed financial institutions tax refunds by \$3,000 in July 2006, the same as in July 2005. The \$3,000 received in FY 2007 was posted as a bank deposit tax collection in error. Finally, there has been no bank deposit tax collected through the first month of FY 2007, comparable to FY 2006 collections through July 2005.

Excise Taxes Other Than the Sales and Use Tax

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-0.7 %	-0.1 %	-0.4 %

Excise taxes other than sales and use taxes collected in the fiscal year-to-date July 2006 period totaled \$15.1 million or \$7,730 less than the \$15.2 million collected for the same period in FY 2006. Motor vehicle receipts were understated by \$2.3 million for July 2005 due to a delay in the posting of June 2005 interstate trucking payments by the Division of Motor Vehicles. Further, in FY 2005 the State began collecting prepaid sales taxes on cigarettes. During the first month of collections, \$1.2 million of these prepaid sales taxes were posted as additional cigarette taxes. Adjusting for the above postings yields an adjusted growth rate of -0.4 percent in excise taxes other than the sales and use tax.

Rhode Island cigarette tax receipts are comprised of excise taxes collected on the sale of cigarettes, smokeless tobacco (which also includes cigars and pipe tobacco), and a one-time cigarette floor stock tax. The cigarette floor stock tax is imposed only when there is an increase in the excise tax on cigarettes. In FY 2006 and FY 2007, no increase in the cigarette excise tax was passed into law and, as a result, no cigarette floor stock tax revenues are expected for this fiscal year. After adjusting out the prepaid sales tax, total cigarette tax receipts for the first month of FY 2007 are down 6.5 percent compared to the same period a year ago.

Finally, the change in cigarette consumption is determined. First, the value of the cigarette floor stock tax and smokeless tobacco products tax is netted out of the data. Next, the prepaid sales tax on cigarettes is removed from the cigarette tax collections. The result is an increase in Rhode Island cigarette consumption of 4.0 percent for the first month of FY 2007 versus the first month of FY 2006.

Other Taxes

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	-0.8 %	13.1 %	13.1 %

Total other taxes collected through July of FY 2007 totaled \$4.3 million versus \$3.8 million in other taxes collected during the same period last fiscal year, an increase of \$501,345, or 13.1 percent. Inheritance tax collections totaled \$2.6 million through July of FY 2007, or 32.7 percent above the \$1.9 million collected through the first month of FY 2006. Given the fact that inheritance tax collections are volatile, it is not possible to make any valid comments about this revenue source. Racing and athletics tax collections through July of FY 2007 are down 25.2 percent relative to the same period in FY 2006. Realty transfer taxes are down by 3.8 percent through July of FY 2007 versus July of FY 2006. The enacted FY 2007 other taxes growth estimate is -0.8 percent over final enacted FY 2006 total other taxes.

Total Departmental Receipts

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.6 %	-44.8 %	-40.2 %

FY 2007 year-to-date departmental receipts total \$5.4 million, a decrease of \$4.4 million over the amount that was collected last fiscal year at this time. Actual departmental receipts for FY 2007 are down 44.8 percent when compared to receipts collected for the same period a year ago. The enacted FY 2007 growth estimate is 3.6 percent over final enacted FY 2006 departmental receipt collections.

Within the total departmental receipt components, licenses and fees are down \$3.4 million, or 47.9 percent, through July of FY 2007 versus FY 2006 through July. The Interim Hospital Rate Settlement payments accounts for over one quarter of the difference, with \$1.3 million paid through July 2005 compared to \$451,511 paid through July 2006. The remainder of the difference is comprised of several decreased postings of licenses and fees that will be better accounted for in August 2006.

Fines and penalties are down \$816,925 through the first month of FY 2007 versus the first month of FY 2006. The decrease is primarily composed of the unusually large banking enforcement fee of \$760,000 which was received in July 2005 and will not repeat. On the other hand, sales and services revenues are up \$117,337, or 21.7 percent, through July of FY 2007 versus the same period last fiscal year. Finally, miscellaneous departmental revenues are down \$314,732, or 23.1 percent, through the first month of FY 2007 versus the first month of FY 2006. It is not yet possible to determine if this change is attributable to actual decreasing miscellaneous revenues or delays in postings due to the State's system transition.

Gas Tax Transfer

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	3.5 %	-2.6 %	-2.6 %

The gas tax transfer is down 2.6 percent for year-to-date FY 2007 when compared to FY 2006 for the same period. The enacted growth rate estimate for the FY 2007 gas tax transfer is 3.5 percent over the final enacted FY 2006 transfer.

Other Miscellaneous Revenues

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	82.8 %	-92.4 %	-92.4 %

Other miscellaneous revenues are down 92.4 percent through July of FY 2007 when compared to the same period one year ago. FY 2007 year-to-date collections total \$2,517 compared to \$33,189 collected by this time last fiscal year. The enacted 2007 growth rate is 82.8 percent

over final enacted FY 2006 collections. The actual year-to-date growth in other miscellaneous revenues is not a surprise given the lack of consistency in typical receipt patterns.

Lottery Transfer

	<u>Enacted Estimate</u>	<u>Actual YTD</u>	<u>Adjusted YTD</u>
Growth Rates	9.0 %	n/a	n/a

There is no lottery transfer in July of any fiscal year.

Rosemary Booth Gallogly, State Budget Officer
September 20, 2006

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

July 2006 Revenue Report

(Fiscal Year 2007)

	FY 2006 YTD July	FY 2007 YTD July	Actual Growth	Preliminary Growth
Personal Income Tax	\$ 62,251,488	\$ 60,609,503	-2.6%	5.8%
General Business Taxes				
Business Corporations*	\$ 4,177,771	\$ 3,864,618	-7.5%	-22.6%
Public Utilities Gross Earnings	\$ 44,941	\$ 371,161	725.9%	4.5%
Financial Institutions	\$ 3,000	\$ -	-	1966.7%
Insurance Companies	\$ 70,802	\$ 77,984	10.1%	-1.5%
Bank Deposits	\$ -	\$ 3,000	-	0.0%
Health Care Provider Assessment	\$ 3,549,623	\$ 3,489,948	-1.7%	3.9%
Excise Taxes				
Sales and Use	\$ 77,524,355	\$ 82,547,727	6.5%	5.2%
Motor Vehicle	\$ 577,047	\$ 3,446,471	497.3%	2.5%
Motor Fuel	\$ 1,022,383	\$ (7,731)	-100.8%	-7.8%
Cigarettes	\$ 12,630,365	\$ 10,646,077	-15.7%	-2.2%
Alcohol	\$ 920,614	\$ 1,057,862	14.9%	2.8%
Controlled Substances	\$ -	\$ -	-	-
Other Taxes				
Inheritance and Gift	\$ 1,944,672	\$ 2,581,451	32.7%	0.2%
Racing and Athletics	\$ 301,545	\$ 225,649	-25.2%	-5.7%
Realty Transfer	\$ 1,574,101	\$ 1,514,563	-3.8%	-2.0%
TOTAL TAXES	\$ 166,592,707	\$ 170,428,283	2.3%	2.6%
Departmental Receipts				
Licenses and Fees	\$ 7,111,959	\$ 3,701,920	-47.9%	-100.0%
Fines and Penalties	\$ 854,531	\$ 37,606	-95.6%	-100.0%
Sales and Services	\$ 539,894	\$ 657,231	21.7%	-100.0%
Miscellaneous	\$ 1,365,085	\$ 1,050,353	-23.1%	-100.0%
TOTAL DEPARTMENTAL RECEIPTS	\$ 9,871,469	\$ 5,447,110	-44.8%	3.6%
TAXES AND DEPARTMENTALS	\$ 176,464,176	\$ 175,875,393	-0.3%	2.7%
Other General Revenue Sources				
Gas Tax Transfer	\$ 422,393	\$ 411,440	-2.6%	3.5%
Other Miscellaneous Revenues	\$ 33,189	\$ 2,517	-92.4%	82.8%
Lottery Transfer	\$ -	\$ -	-	9.0%
Unclaimed Property	\$ -	\$ -	-	-
TOTAL OTHER SOURCES	\$ 455,582	\$ 413,957	-9.1%	13.8%
TOTAL GENERAL REVENUES	\$ 176,919,758	\$ 176,289,350	-0.4%	4.1%

* Business Corporations tax includes both corporate income tax and franchise tax collections.